

What is an Inventory Management System? Definition of Inventory Management Systems, Benefits, Best Practices & More

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When most people think of inventory management, they think of retail applications. While retail operations rely heavily on inventory management, inventory management systems are widely used in a variety of industries, from manufacturing to utilities, healthcare, education, government, and more. Inventory management systems streamline and centralize the process for controlling the flow and maintenance of inventory to ensure that the right amount of inventory is available at the right time and of the right quality.

Definition of an Inventory Management System

An inventory management system is the combination of technology (hardware and software) and processes and procedures that oversee the monitoring and maintenance of stocked products, whether those products are company assets, raw materials and supplies, or finished products ready to be sent to vendors or end consumers. A complete inventory management system consists of:

- A system for identifying every inventory item and its associated information, such as barcode



labels or asset tags.

- Hardware tools for reading barcode labels, such as handheld barcode scanners or smartphones with barcode scanning apps.
- Inventory management software, which provides a central database and point of reference for all inventory, coupled with the ability to analyze data, generate reports, forecast future demand, and more.
- Processes and policies for labeling, documentation, and reporting. This should include an [inventory management technique](#) such as Just in Time, ABC Analysis, First-In First-Out (FIFO), Stock Review, or another proven methodology.
- People who trained to follow these policies and processes.

[SearchERP](#) defines inventory management as “the supervision of non-capitalized assets (inventory) and stock items.” Inventory management is a component of supply chain management that oversees the flow of items (products, goods, etc.) as they move from the manufacturer to the warehouse and then to the point of sale. “A key function of inventory management is to keep a detailed record of each new or returned product as it enters or leaves a warehouse or point of sale,” SearchERP explains, which points to the importance of having a clear and established inventory management system to ensure that the process and documentation are as streamlined and efficient as possible, as well as to minimize error.

Benefits of Inventory Management Systems

Without an inventory management system, the goods and products that flow through an organization will inevitably be in disarray. An inventory management system enables a company to maintain a centralized record of every asset and item in the control of the organization, providing a single source of truth for the location of every item, vendor and supplier information, specifications, and the total number of a particular item currently in stock.

Because inventory often consists of movable assets, inventory management systems are critical for keeping tabs on current stock levels and understanding what items move quickly and which items are more slow-moving, which in turn enables organizations to determine when it's time to reorder with greater accuracy. Overall, a comprehensive inventory management system offers [countless benefits](#) to companies including:

- Improved cash flow
- Better reporting and forecasting capabilities
- Reduction in storage costs (overhead)
- Reduced labor costs
- Reduction in dead stock
- Better organization
- Enhanced transparency

- Improved supplier, vendor, and partner relationships

Challenges of Inventory Management Systems

Inventory management systems can have a dramatic effect on productivity and efficiency when implemented properly. Most of the challenges associated with inventory management systems arise from failing to follow best practices or relying on outdated methods, such as manual documentation and inconsistent storage layouts and processes. In these cases, a complete inventory management overhaul may be in order to streamline inventory management and add clarity and consistency to the process company-wide.



A good inventory management system reduces human error by eliminating manual documentation through the use of barcode labels, barcode scanners, and inventory management software, reducing costly mistakes such as:

- Having too much slow-moving inventory in stock, taking up valuable storage space and eating into the company's bottom line.
- Unexpectedly running out of stock of an essential inventory item, which can delay the supply chain due to backorders.
- Inaccurate records (wrong part numbers, incorrect inventory counts) that arise from manual documentation errors.
- Wasted man hours spent tracking down items that are stored in the wrong locations. Inventory storage that's not optimized for efficiency (due to poor warehouse or stock room layouts) can also increase stock picking time, which also increases labor costs.

Best Practices for Inventory Management Systems

[Cleary Inventory](#) explains that a good inventory management system can help to enhance productivity, but only if you set it up with some basic essentials including:

- Location names
- Easy-to-read location labels
- Unique item identification numbers
- Units of measure
- A starting count
- A software solution that effectively monitors and tracks activity
- Clear, company-wide policies and processes
- People who know how to support these policies and processes

Implementing a comprehensive inventory management system can be complex. It's not merely a matter of purchasing a good software program; an inventory management system must address the people, processes, and technologies from end-to-end. Following best practices to set up a comprehensive, company-wide inventory management system is an investment that will pay for itself again and again through greater efficiency and a boost to the bottom line.

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